

## *The President's Daily Brief*

19 August 1971

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*FOR THE PRESIDENT ONLY*

**THE PRESIDENT'S DAILY BRIEF**

19 August 1971

**PRINCIPAL DEVELOPMENTS**

On *Page 1* we summarize the latest international economic developments, including today's suspension of foreign exchange transactions by the Japanese central bank.

Soviet

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The Chinese are constructing a shipyard near the central Yangtze that might be intended to produce nuclear submarines. (*Page 5*)

Mintoff has signed a short-term aid agreement with Libya. (*Page 5*)

France

(*Page 5*)

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INTERNATIONAL ECONOMIC DEVELOPMENTS

The Japanese central bank today suspended foreign exchange transactions indefinitely after hectic trading brought in \$600 million in the first few hours. Japanese dollar purchases this week have totaled about 2.2 billion.

Japanese economic leaders appear to be leaning toward some readjustment of the yen-dollar currency ratio. Sato has asked the Finance Ministry to study the possibility of widening the margin within which the dollar would be allowed to fluctuate. Following a meeting with acting Foreign Minister Kimura yesterday, the chairman of the Japan Chamber of Commerce stated that he favored a yen revaluation if the US ten-percent import surcharge was rescinded. Any adjustment in the exchange rate would be much easier for the beleaguered Sato government if it appeared to be the inevitable result of depreciation of the dollar on European exchange markets, thus avoiding the impression that Tokyo is bowing to pressure from Washington.

The task of the EC finance ministers' meeting in Brussels this afternoon to seek a common policy vis-a-vis the US dollar has been handicapped by the refusal of Paris to float the franc. The EC monetary committee had concluded earlier that a coordinated float of the five EC currencies against the dollar would be the most likely course of action, but the French delegate had then been unable to speak since his government's official position had not yet been determined. The French will table an alternative proposal involving the establishment of a dual rate system, similar to that practiced by the Belgians. By this proposal, a floating exchange rate would apply to capital transactions but central banks would continue to support fixed dollar-EC currency parities for commercial transactions.

According to a Bonn Foreign Office official, West Germany still holds that the EC should move promptly to act in cooperation with the US and should avoid any retaliatory measures. Both Economics Minister Schiller and EC Commissioner Dahrenndorf, however, have hinted that "protective" measures, such as subsidies to certain export-oriented industries, might be in order.

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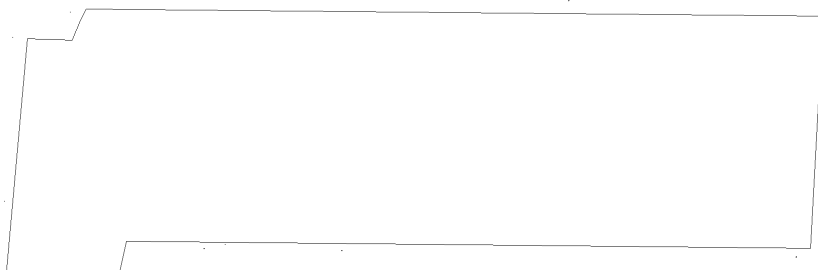
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The strong international reaction against the surtax indicates that the US will be subject to rough questioning when this issue comes up in the GATT council, which is tentatively scheduled to meet on 24 August. A high GATT official believes the Council will have a working party, possibly chaired by GATT Director General Long, to examine the question. A GATT decision that a temporary surcharge is warranted on balance-of-payments grounds could constrain other countries from retaliating against the US by withdrawing equivalent tariff concessions.

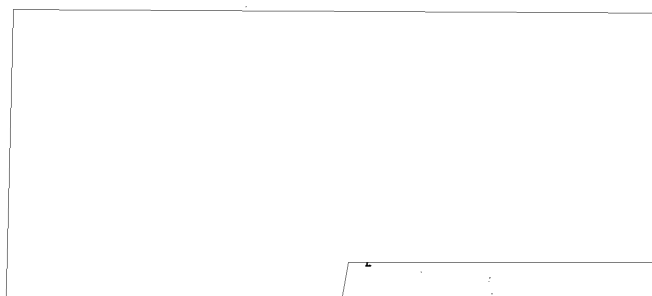
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USSR



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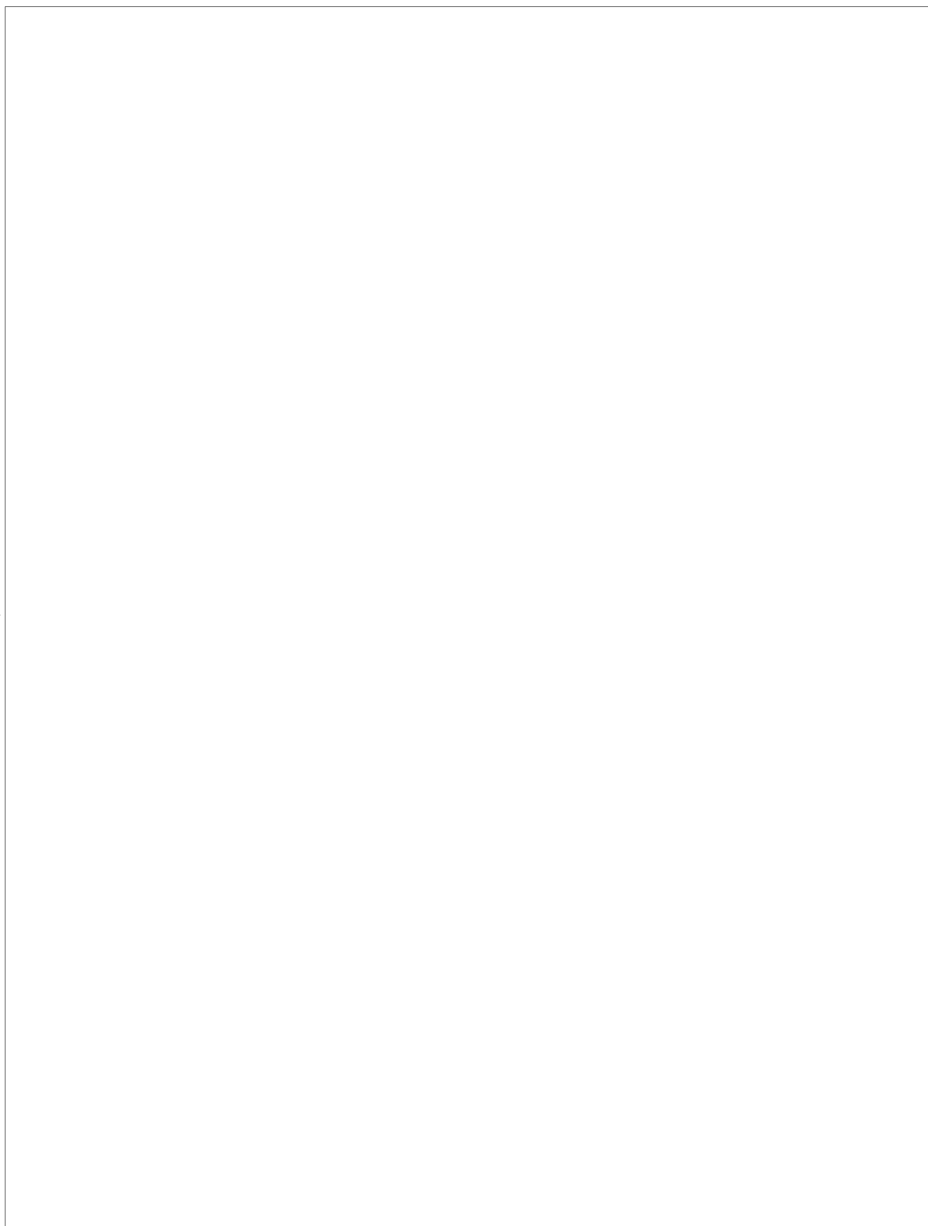
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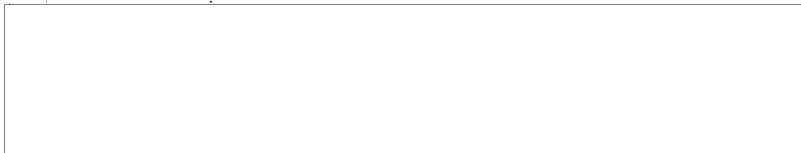
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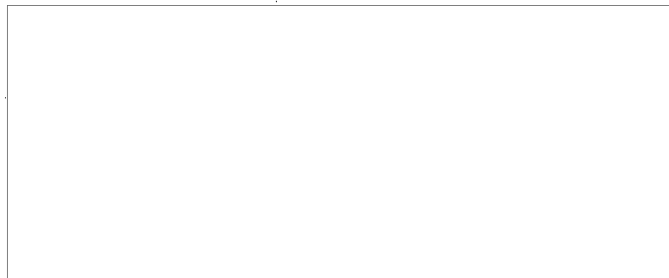


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EGYPT



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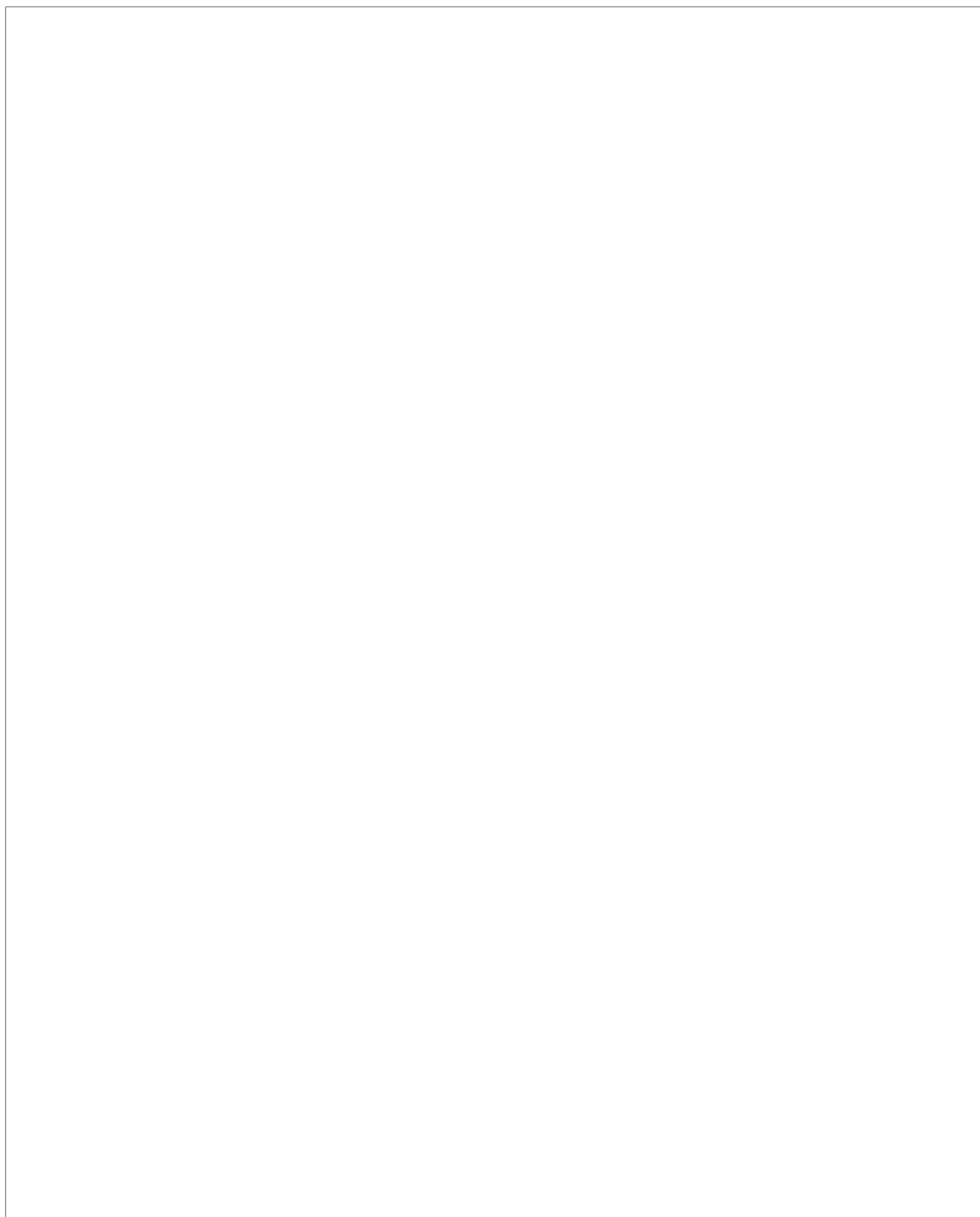
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NOTES

Communist China: Recent satellite photography shows a new shipyard in the early stages of construction on a small lake just off the Yangtze River south-east of Wu-han in central China. [REDACTED]

[REDACTED] a nuclear submarine production facility is being built at this location. China has four currently active submarine production yards, including Hu-lu-tao where the new Mao-class unit--which may be nuclear-powered--has been built.

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Malta: During his visit to Tripoli on Tuesday, Mintoff signed a short-term aid agreement which, according to a US Embassy source, provides "more" than London's offer of an interim, reimbursable payment of \$4.8 million. Mintoff is said to have pledged only to follow through on his orders to remove the small NATO presence. He may also have laid the groundwork for a larger Libyan aid package in the event that his continuing negotiations with London break down.

France: [REDACTED]

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South Vietnam: [REDACTED]

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Bolivia



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